Testimony of

UIL HOLDINGS CORPORATION

Before the Energy and Technology Committee

on Section 6

of

RAISED BILL 1079 - AN ACT CONCERNING OPERATIONS OF PUBLIC SERVICE COMPANIES

Good afternoon, Senator Fonfara, Representative Nardello and members of the Energy & Technology Committee. My name is Gregg Therrien and I am Director of Regulatory and Pricing for the Connecticut Natural Gas Corporation (CNG) and The Southern Connecticut Gas Company (the Companies.) CNG and SCG are gas operating companies of UIL Holdings Corporation. I'm here today to support Section 6 of Raised Bill 1079.

My comments on the proposed bill will focus specifically on Section 6, which proposes to allow a gas company to reconcile through the gas company's purchased gas adjustment (PGA) clause the differences between the actual indirect costs associated with the gas commodity and those indirect costs included in the gas company's base delivery rates.

First, let me more clearly define what is meant by "indirect gas costs." These costs vary depending on the price of the natural gas commodity. If gas commodity costs go up, so do the indirect gas costs. Conversely, lower gas commodity costs result in lower indirect costs. Under current regulatory rules, these costs are only adjusted when gas companies file for periodic base rate changes even though the dynamic monthly changes in the gas commodity costs are adjusted monthly through the PGA.

Currently, Section 16-19b of the general statutes ("the PGA statute") is narrowly defined to "charge or reimburse the consumer only for the changes in the cost of purchased gas." Section 6 of the Bill proposes to include indirect gas costs as well, after review by the Department of Public Utility Control.

Specifically, CNG/SCG supports the inclusion of three indirect gas costs in the monthly PGA. They are:

- uncollectibles related to gas costs,
- gas commodity-related working capital costs, and
- carrying costs associated with underground and local gas storage.

Gas costs make up approximately 50% of a typical residential customer monthly bill. As such, changes in this single largest bill component can have a significant impact on a customer's ability to pay. Reconciling these costs as part of the PGA protects both consumers and the gas company. Any reduction in gas costs will include a further corresponding reduction in uncollectible expense that can be passed along to customers; conversely, the gas company can be made whole for additional uncollectible expenses that result simply from higher gas commodity costs.

Working capital requirements are also affected by changes in gas costs. If gas costs go up, then the gas company's cash outlay for purchased gas costs is higher than that included in rates and results in higher interest expenses until that cash is later collected from customers. Similarly, the Bill would likewise flow through lower interest expense associated with lower working capital requirements back to customers through the PGA.

The third indirect gas cost sought to be included in the PGA reconciliation is the carrying costs associated with pre-purchased gas in storage. The higher the inventory costs, the higher the interest expense, and vice-versa. The clear relationship between this cost of providing reliable natural gas service and gas commodity prices makes variation in costs appropriate for the PGA mechanism.

In conclusion, CNG and SCG wish to emphasize the symmetrical nature of the proposed change. The gas company stands to neither gain nor lose from this proposal – only to keep customers and the Company whole for the cost associated with providing reliable gas service. Further, the proposed modifications do not in any way remove or undermine the Department of Public utility Control's authority to review costs and expenses included in the PGA.

I would like to express our appreciation and support for your work on this issue and I am available to answer any questions or concerns regarding this proposal.

Thank you for your consideration.